

GAO

Report to the Honorable
John R. Kasich, Chairman, Committee on
the Budget, House of Representatives

October 2000

FUTURE YEARS DEFENSE PROGRAM

Risks in Operation and Maintenance and Procurement Programs



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Abbreviations

DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	operation and maintenance

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United States General Accounting Office
Washington, D.C. 20548

October 5, 2000

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

The Department of Defense's (DOD) Future Years Defense Program (FYDP) is the official document that summarizes the force levels and funding associated with specific programs that the Secretary of Defense would like Congress to approve. The FYDP reflects decisions made in the DOD Planning, Programming, and Budgeting System, which is intended to produce the best possible mixture of forces, equipment, and support to accomplish DOD's mission. The FYDP presents estimated appropriation needs for the budget year for which funds are being requested from Congress and at least the 4 years following it. The fiscal year 2000 FYDP supported the President's 2000 budget and requested \$278.5 billion for 2000 and \$1,434 billion total funding for fiscal years 2001-05.¹ The fiscal year 2001 FYDP supports the President's 2001 budget and requests \$1,450 billion total funding for 2001-05. As requested, this report concentrates on the period common to both FYDPs, 2001-05, and discusses the risks that the 2001 FYDP faces that may prevent it from being implemented as planned. The report also discusses recent actions taken by Congress on DOD's budget for 2001 during its consideration of the Fiscal Year 2001 National Defense Authorization Act and its enactment of the Fiscal Year 2001 Defense Appropriations Act.

Results in Brief

Although total funding in the 2001 FYDP is about \$16 billion more than in the 2000 FYDP, there are risks that DOD will not be able to implement its operation and maintenance and procurement programs as planned. We identified several areas in the operation and maintenance accounts where costs may be understated or savings overstated, adding risk that DOD in

¹Unless otherwise stated, the years and dollars shown in this report are on a fiscal year basis and in constant fiscal year 2001 dollars.

the next FYDP will have to shift more funds to these accounts from other accounts, such as procurement. Specifically,

- U.S. military forces are participating in operations in the Balkans (Kosovo and Bosnia) and Southwest Asia. DOD assumed that U.S. forces will be deployed in Southwest Asia at least through 2005 and programmed about \$1.1 billion each fiscal year through 2005. DOD programmed \$3.1 billion in 2001 for operations in the Balkans. However, because DOD considers the situation in the Balkans as uncertain, it programmed only \$1 billion annually from 2002 through 2005 for operations in the Balkans and for any other potential operations. To the extent that existing operations or new operations cost more than the \$1 billion programmed, DOD will need to shift funds from other accounts to pay for these operations or will need to seek supplemental funds from Congress.
- To fund readiness needs, DOD programmed \$1.5 billion less for real property maintenance in the 2001 FYDP than was programmed in the 2000 FYDP. According to the military services, the backlog of real property maintenance is projected to continue to grow to \$26 billion by 2005. If DOD has to spend more money on real property maintenance than it budgeted for, as it has in the past few years, it will need to shift funds from other accounts, thereby introducing risk that other programs will not be implemented as planned.
- Although DOD plans to increase Defense Health Program funding by \$615 million over the 2001-05 time period, DOD officials report that an additional \$6 billion is required to maintain the existing program through 2005.² In addition, congressional defense authorization committees are considering numerous bills that would add requirements to the Defense Health Program. Further risks may be incurred if Congress passes legislation to expand military health benefits and does not provide full funding for those additional benefits.
- DOD has long sought to reduce the cost of supporting its infrastructure, which receives about half of its funds from operation and maintenance accounts, so that it could use the savings to fund modernization and readiness needs. DOD has sought these reductions primarily through additional base closures and efficiencies in operations through reform initiatives. However, Congress did not approve additional base closures. Moreover, our work has shown that the portion of DOD's budget devoted to infrastructure has not been reduced, despite the

²Value is in current year dollars.

expectations that it would. Future reductions are also in doubt because DOD may not achieve the \$10.8 billion in savings in the 2001-05 time frame from defense reform initiatives. Our work shows that the projected savings will be lower during the 2001-05 time frame and that the pace of realizing these savings will be slower than projected by DOD. Because the military services and the defense organizations have already adjusted their current budgets and future years funding projections to reflect these expected savings, they will likely experience funding shortfalls, unless other adjustments are made or additional funds are provided.

DOD programmed \$3.2 billion less in procurement funding in the 2001 FYDP than it had programmed in the 2000 FYDP. This action runs counter to its goal of substantially increasing procurement and adds risk to its long-term modernization program for aircraft, ships, and other weapon systems that will cost billions of dollars. This shifting of procurement funds to other activities creates a large demand for procurement funds beyond the FYDP and raises the risk that existing equipment will deteriorate and become obsolete, which could compromise the technological superiority of future forces. Another factor that adds risk to DOD's modernization plans is the long-standing problem of cost growth in weapon systems. Recently, we and others have reported that the costs for the Navy's F/A-18E/F aircraft, the Air Force's F-22 aircraft program, the Army's Comanche helicopter program, and the multiservice Joint Strike Fighter program could exceed current projected costs.

We provided a draft of this report to DOD for its review and comment. DOD chose not to comment.

Background

In June 2000, we compared the planned funding levels for the 2000 and 2001 FYDPs.³ We stated that in constant dollars, there are only minor increases in the projected year-to-year funding totals over the common 5-year period, 2001-05, from the 2000 FYDP to the 2001 FYDP. Table 1 from that report shows the year-to-year changes by primary appropriation categories.

³*Future Years Defense Program: Comparison of Planned Funding Levels for the 2000 and 2001 Programs* (GAO/NSIAD-00-179, June 14, 2000).

Table 1: DOD's 2000 and 2001 FYDPs, by Primary Appropriation Category (total obligational authority in billions of fiscal year 2001 dollars)

Appropriation category	FYDP	2001	2002	2003	2004	2005	Total	Percent change 2001-05
Military personnel	2000	\$76.5	\$76.1	\$75.9	\$75.9	\$75.9	\$380.3	
	2001	75.8	76.0	75.7	76.0	76.0	379.5	
	Change	-0.7	-0.1	-0.2	0.1	0.1	-0.8	-0.2
Operation and maintenance	2000	105.1	103.6	103.7	104.2	104.4	521.0	
	2001	109.0	105.3	104.7	105.2	105.1	529.4	
	Change	4.0	1.7	1.0	1.0	0.7	8.5	1.6
Procurement	2000	61.4	60.8	63.7	64.9	68.9	319.6	
	2001	60.3	62.0	64.4	64.0	65.8	316.4	
	Change	-1.1	1.2	0.7	-0.8	-3.1	-3.2	-1.0
Research, development, test, and evaluation	2000	34.1	33.8	33.0	32.7	31.3	165.0	
	2001	37.9	37.7	36.3	35.4	33.7	180.9	
	Change	3.8	3.9	3.2	2.7	2.4	15.9	9.6
Military construction	2000	7.1	4.1	4.1	4.2	4.4	23.9	
	2001	4.6	4.2	3.7	4.3	5.0	21.7	
	Change	-2.5	0.1	-0.5	0.2	0.5	-2.2	-9.1
Family housing	2000	3.8	3.5	3.6	3.6	3.6	18.2	
	2001	3.5	3.7	3.7	3.8	3.8	18.4	
	Change	-0.4	0.1	0.1	0.2	0.2	0.2	1.3
Other ^a	2000	0.8	1.3	2.1	1.2	0.9	6.3	
	2001	1.3	0.8	0.7	0.4	0.4	3.6	
	Change	0.5	-0.6	-1.4	-0.8	-0.5	-2.7	-42.5
Total	2000	\$288.7	\$283.3	\$286.1	\$286.7	\$289.4	\$1,434.2	
	2001	\$292.3	\$289.6	\$289.2	\$289.1	\$289.7	\$1,450.0	
	Change	\$3.7	\$6.3	\$3.1	\$2.4	\$0.4	\$15.8	1.1

^aIncludes revolving and management funds and defensewide contingencies.

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Since the mid-1980s, we have reported and testified that DOD employs overly optimistic planning assumptions in its budget formulation, which leads to far too many programs for the available dollars. Over the last few years, we have reported and testified that DOD has had difficulty meeting its planned growth in procurement funds and that procurement plans had

been shifted to the future.⁴ This pattern was caused by the need to use procurement funds for operation and maintenance (O&M) activities.

DOD May Have to Shift More Funds to Operation and Maintenance

We identified several areas in the O&M accounts where costs may be understated or savings overstated, adding risk that DOD in the next FYDP will have to shift more of its funds from other accounts, such as procurement, to meet O&M needs. These areas include the estimated costs of

- contingency operations in the Balkans and possibly other areas, which may cost more than the \$1 billion programmed annually in the FYDP for 2002-05;
- real property maintenance, which have been greater than budgeted amounts over the last few years;
- the Defense Health Program, which DOD estimates are understated by at least \$6 billion over the next 5 years;⁵
- bulk fuel, which may increase beyond expectations; and
- ship depot maintenance, which may be understated by about \$574 million.

They also include the projected savings of \$10.8 billion from the Defense Reform Initiative, which may not materialize in the expected time frames.

Additional O&M Funds for Ongoing Contingency Operations May Be Needed

U.S. military forces are participating in a number of contingency operations, most notably in the Balkans (Kosovo and Bosnia) and Southwest Asia.⁶ DOD budgets and Congress appropriates funds for the costs of these ongoing operations to the Overseas Contingency Operations Transfer Fund. As operations unfold during the year, DOD transfers funds out of this Fund to the military services and to the smaller DOD

⁴*Future Years Defense Program: Funding Increase and Planned Savings in Fiscal Year 2000 Program Are at Risk* (GAO/NSIAD-00-11, Nov. 22, 1999); *DOD Budget: Substantial Risks in Weapons Modernization Plans* (GAO/T-NSIAD-99-20, Oct. 8, 1998); and *Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan* (GAO/NSIAD-98-204, July 31, 1998).

⁵Value is in current year dollars.

⁶Contingency operations include noncombatant evacuation operations, no-fly zone enforcement, humanitarian assistance, and peace enforcement operations.

components that also have a supporting role in the operations.⁷ Any monies remaining in the Fund at the end of the fiscal year can be carried over to the next fiscal year. In the 2001 FYDP, DOD increases total funding for the Overseas Contingency Operations Transfer Fund by about \$9.7 billion, or 382 percent, over that programmed in the 2000 FYDP. The increase was primarily to fund ongoing operations in Kosovo, which began after the 2000 budget was submitted, and in Southwest Asia.

Despite this increase, DOD may need additional O&M funds for contingency operations. DOD assumes that U.S. forces will be deployed in Southwest Asia, in support of their current mission, at least through 2005. Accordingly, funding in the 2001 FYDP for Southwest Asia remains constant at about \$1.1 billion each fiscal year. DOD programmed \$3.1 billion in 2001 for operations in the Balkans. However, because DOD considers the situation in the Balkans as uncertain, it programmed about \$1 billion annually from 2002 through 2005 for operations in the Balkans and for any other potential operations. To the extent that existing or new operations cost more than the \$1 billion programmed, DOD will need to shift funds from other accounts to pay for these operations or will need to seek supplemental funds from Congress.

Congress recently provided \$6.0 billion for the Overseas Contingency Operations Transfer Fund—\$2.8 billion in the Fiscal Year 2001 Defense Appropriations Act and \$3.2 billion in fiscal year 2000 emergency supplementals.⁸

Additional Risk in Real Property Maintenance Is Assumed

To maintain readiness within given funding levels, DOD plans to reduce or delay funding for real property maintenance.⁹ Over 90 percent of real property maintenance activities are funded in DOD's O&M accounts. Our analysis shows that DOD has programmed \$1.5 billion less for real property maintenance in the 2001 FYDP than was programmed in the 2000 FYDP. Most of this decrease (\$1.2 billion) is planned to occur in the Army's

⁷Smaller defense components such as the Defense Information Systems Agency, the National Security Agency, and the Special Operations Command.

⁸P.L. 106-246, July 13, 2000, and P.L. 106-259, Aug. 9, 2000.

⁹Real property maintenance includes the maintenance and repair of real property such as utilities, buildings, facilities, pavements, land, and grounds as well as repair of electrical circuitry, heating and air-conditioning, water pipes, and routine maintenance work.

accounts as a result of the Army's decision to reduce real property maintenance funding to 69 percent of requirements.

DOD officials have expressed concern about the adequacy of planned funding for real property maintenance. The Secretary of the Army stated that the Army has decided to assume some risk by funding its real property maintenance at only 69 percent of known requirements,¹⁰ thereby exacerbating the deterioration of its aging infrastructure. Even though the Navy projects increased funding for real property maintenance,¹¹ the Vice Chief of Naval Operations has stated that the Navy remains concerned about the backlog of critical repairs, which it projects will grow to \$3.7 billion in 2005. According to the Vice Chief, this backlog will make it that much more difficult to "turn the corner on the chronic deterioration" of naval bases, which is becoming a significant quality-of-life issue for the service. Similarly, the Secretary and the Chief of Staff of the Air Force have reported that real property maintenance is funded at a minimum level intended to accomplish only the day-to-day maintenance required to sustain facilities and infrastructure.¹² According to these officials, the available funds do not provide the resources necessary to reduce the repair and maintenance backlog, which is currently at \$4 billion and is expected to increase. In recognition of DOD's concern about real property maintenance funding, Congress, in the Fiscal Year 2001 Defense Appropriations Act, provided \$250 million in supplemental funding specifically earmarked for these activities available through fiscal year 2001.

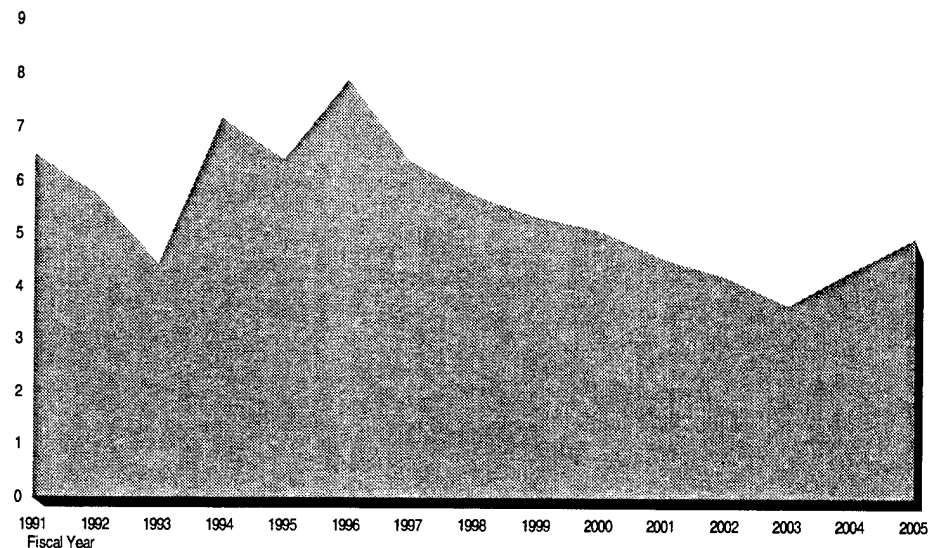
DOD reports that one of the most significant factors in the growth of the maintenance and repair backlog is the underfunding of military construction projects to replace older facilities with newer buildings that are cheaper to maintain. As figure 1 shows, the downward trend in military construction funding is projected to continue through 2003 and then funding is projected to increase through 2005.

¹⁰Statement of the Secretary of the Army on the Posture of the United States Army and the Fiscal Year 2001 Budget Request, Mar. 22, 2000.

¹¹Statement of the Vice Chief of Naval Operations before the House Committee on Armed Services, Feb. 29, 2000.

¹²Air Force Posture Statement 2000, Feb. 10, 2000.

**Figure 1: Historic and Projected Military Construction Funding From 1991 to 2005
(in billions of fiscal year 2001 dollars)**



Source: Our analysis of FYDP data.

Our recent work,¹³ which examined DOD's real property maintenance, shows that DOD plans to fund repairs below the level required to keep most facilities at current conditions. For example, the Air Force had planned no money for repair projects until fiscal year 2003 (although it planned to spend some funds on emergency minor repairs and other forms of what it terms preventive maintenance). The work also shows that the backlog of repairs, some rated critical by the services, is projected to increase as a result of the reduced funding levels. For example, the Army and the Navy both estimate their backlogs of critical repairs will grow by 12 percent between 2001 and 2005, to \$18.8 billion and \$3.7 billion, respectively. Current service projections show the combined backlog of the active and reserve components of the Army, the Navy, and the Air Force increasing to \$26 billion by 2005. We have also reported that, between 1994

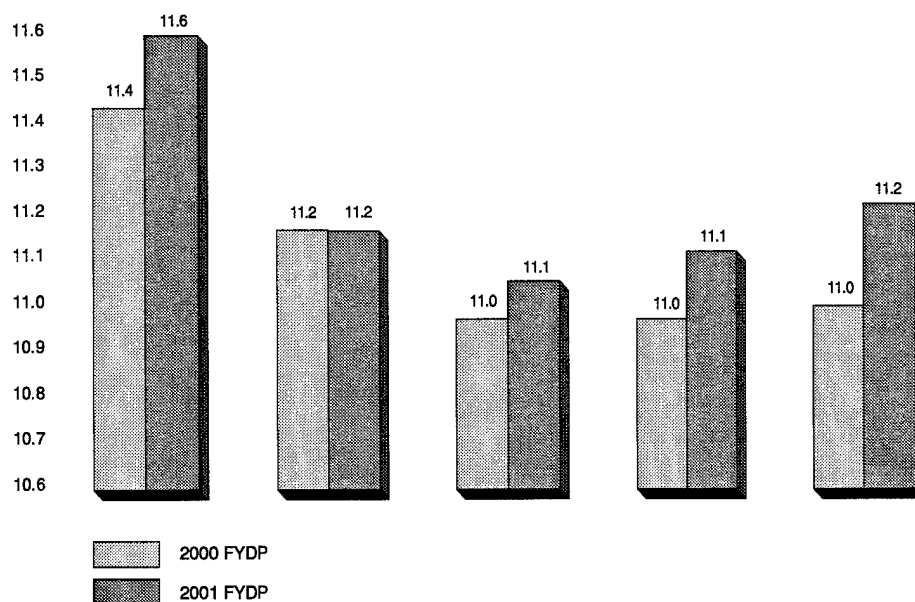
¹³*Defense Budget: Real Property Maintenance and Base Operations Fund Movements* (GAO/T-NSIAD-00-101, Mar. 1, 2000) and *Military Real Property Maintenance: Management Improvements Are Needed to Ensure Adequate Facilities* (GAO/T-NSIAD-00-111, Mar. 1, 2000).

and 1999, DOD consistently spent more on real property maintenance than it had programmed.¹⁴ If historical trends continue, DOD will find it necessary to again shift funds to real property maintenance, thereby introducing risk that other programs will not be implemented as planned.

Defense Health Funding Understated

The Defense Health Program comprises about 10 percent of DOD's total O&M funding for both the 2000 and 2001 FYDPs. The 2001 FYDP plans to increase funding for the program by \$615 million (1.1 percent) over the 2001-05 period, as compared to the 2000 FYDP. Figure 2 shows annual funding level projections from both FYDPs.

Figure 2: Annual Defense Health Program Funding Levels in the 2000 and 2001 FYDPs (in billions of fiscal year 2001 dollars)



Source: Our analysis of FYDP data.

¹⁴Defense Budget: Analysis of Real Property Maintenance and Base Operations Fund Movements (GAO/NSIAD-00-87, Feb. 29, 2000).

Despite this planned funding increase, DOD resource management officials report that the projected funding levels in the 2001 FYDP are inadequate to maintain their current program. DOD Comptroller officials estimate that an additional \$6 billion is required just to maintain the existing program through 2005.¹⁵

This understating of Defense Health Program funding requirements is known within DOD and has been going on for several years. In 1999, we reported that there was risk to the sufficiency of the projected annual funding levels for the Defense Health Program.¹⁶ DOD's difficulty in adequately estimating its health care needs is due, in part, to the lack of a universal beneficiary enrollment requirement that clearly identifies the population for whom DOD is to provide health care. In addition, officials with the Office of the Secretary of Defense told us that they only work to make Defense Health Program FYDP projections realistic for the current budget year and that they underfund the program in the outyears to free up funds for other defense programs. As such, DOD is not providing Congress with a realistic picture of funding requirements and the trade-offs required within the defense budget to meet these known requirements.

Funding requirements for the Defense Health Program, as presented to Congress as part of the President's budget, have been understated for the last several years. For example, the Fiscal Year 1997 Defense Appropriations Act added about \$475 million to the program to address a shortfall discovered after the initial budget was submitted.¹⁷ In 1998, DOD's Comptroller submitted a budget amendment to add \$274 million to the program to fully fund it. Despite DOD's testimony in February 1998 that the core programs of the 1999 Defense Health Program were fully funded, the services later reported that the funding shortfall could be as much as \$613 million. In 1999, the Defense Health Program received \$347 million more than requested in DOD's original budget. The Department of Defense Appropriations Act for Fiscal Year 2000 provided \$320 million more than requested by DOD for the program.¹⁸ Again in the Fiscal Year 2000

¹⁵Value is in current year dollars.

¹⁶*Defense Health Program: Reporting of Funding Adjustments Would Assist Congressional Oversight* (GAO/HEHS-99-79, Apr. 29, 1999).

¹⁷P.L. 104-208, Sept. 30, 1996.

¹⁸P.L. 106-79, Oct. 25, 1999.

Emergency Supplemental Appropriations Act, Congress added \$615.6 million to cover unanticipated Defense Health Program cost increases in fiscal years 1998 through 2001. In this act, Congress also appropriated an additional \$695.9 million for unfunded requirements that will remain available through fiscal year 2002. Also, in the Fiscal Year 2001 Defense Appropriations Act, Congress included \$100 million in supplemental funding for the Defense Health Program available through 2001, which is intended to cover expanded pharmacy access for military retirees, including those over age 65.

Congressional defense authorization committees are considering numerous bills that would add requirements to the Defense Health Program. If increased benefits are enacted and full funding for those increased benefits are not provided, the extent to which the program's requirements are understated in the 2001 FYDP could be further exacerbated.

Volatile Fuel Prices Increase O&M Risk

The recent volatility of fuel prices introduces risk into DOD's projected O&M funding. Bulk fuel prices are volatile due to increases and decreases in crude oil prices. In the 2000 FYDP, DOD assumed savings from lower fuel costs. Conversely, DOD added \$3.5 billion to its 2001 FYDP for projected increased fuel costs for ship and jet fuel, diesel oil, and gasoline. The Office of Management and Budget provides DOD with inflation estimates for fuel purchases in November for inclusion in the President's budget. The Department of Energy reports that crude oil prices doubled between November 1998 and November 1999, and since November 1999, prices have increased by an additional \$5.09 per barrel. Crude oil prices are expected to begin decreasing; however, the Department of Energy continues to project that prices during fiscal year 2001 will be an average of \$4.51 per barrel above those used to develop the 2001 FYDP.

The Fiscal Year 2000 Emergency Supplemental Appropriations Act provides \$1.6 billion to cover fuel price increases through fiscal year 2001. If the volatility in crude oil prices continues and prices do not decrease as currently projected, DOD may need to adjust the fiscal year 2002 price it charges the military services and other customers. Since the services use this price to budget for their bulk fuel purchases, they would have to program more funds for fuel, if DOD has to increase its price.

Other Risks Exist in Army and Navy Programs

Officials report additional risks in Army and Navy programs. Army officials report that O&M funding decreases of \$3.8 billion from the 2000 FYDP to the 2001 FYDP have added significant risks to programs such as depot maintenance, information management, transportation, and ammunition stockpile management. For example, in February 2000, the Vice Chief of Naval Operations also expressed concern about the funding of ship depot maintenance and stated that fleet commanders report this account as being underfunded. The Navy has budgeted ship depot maintenance at the goal rate of 93.5 percent of requirements in 2001; however, according to a Ship Maintenance Policy official, the FYDP funded the other years below the 93.5 percent rate due to uncertainties in the ship depot maintenance schedule. If the Navy increases funds for 2002-05 to the 2001 rate of 93.5 percent, it will require an additional \$574 million. In recognition of the Navy's need for additional ship depot maintenance funding, Congress provided \$362 million in supplemental funding in the Fiscal Year 2000 Emergency Supplemental Appropriations Act for these activities through fiscal year 2001.

DOD Unable to Shift Funds to Modernization and Readiness Through Infrastructure Reductions

DOD has long sought to reduce the cost of supporting its infrastructure, which receives about half of its funding from O&M accounts, so that it could use the savings to fund modernization and readiness needs. These reductions have been primarily through base closures and efficiencies in operations through reform initiatives. However, our work has shown that the portion of DOD's FYDP devoted to direct infrastructure,¹⁹ relative to mission, has not changed, despite the expectations that it would.²⁰ Future reductions are also in doubt because (1) projected savings from defense reforms could be lower during the 2001-05 time frame and (2) Congress has not granted authorization to conduct further base closure rounds.

¹⁹Using the FYDP, DOD has clearly identified program elements that fund infrastructure activities and refers to these as "direct infrastructure." In addition to this direct infrastructure, there are parts of the total infrastructure funding that cannot be clearly identified in the FYDP. In the past, DOD estimated that this "indirect" infrastructure was, on average, an additional 14 percent of its total program.

²⁰*Future Years Defense Program: Lower Inflation Outlook Was Most Significant Change From 1996 to 1997 Program* (GAO/NSIAD-97-36, Dec. 12, 1996); *Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001* (GAO/NSIAD-96-174, May 31, 1996); and *Future Years Defense Program: 1996 Program Is Considerably Different From the 1995 Program* (GAO/NSIAD-95-213, Sept. 15, 1995).

**Defense Reforms May Not
Produce Projected Savings
During 2001-05 Time Frame**

The Defense Reform Initiative, announced by the Secretary of Defense in November 1997, represents a number of management initiatives undertaken to improve the effectiveness and efficiency of DOD's business operations. Included are initiatives such as adopting the best business practices of the private sector, reducing and reorganizing headquarters elements, expanding the use of public-private competitions (using the Office of Management and Budget's A-76 process),²¹ and eliminating unneeded infrastructure. The ultimate goals of this effort are to improve service to the warfighters, who depend on DOD's internal businesses for support, and help reduce infrastructure costs so that savings in operation and maintenance funding can be shifted to support weapons modernization. The services and Defense agencies have assumed in the 2001 FYDP that the Initiative would result in \$10.8 billion in savings in the 2001-05 time frame and have applied these projected savings to other programs.

In July 2000, we reported that only a few of the reform initiatives had been completed and, that while most of the remaining initiatives are progressing, they face barriers that could keep them from meeting specific time frames and goals.²² As such, the Initiative, thus far, has not resulted in large savings, primarily because most individual initiatives are long-term efforts that require significant up-front investments to implement. We also reported that it could take some time before these investments are offset and net savings begin to accrue. Because the defense components have already adjusted their current budgets and future years funding projections to reflect these expected savings, they will likely experience funding shortfalls, unless other adjustments are made or additional funds are provided. For example, the Navy projects savings of \$4.9 billion between 2001 and 2005 resulting from its strategic sourcing and A-76 initiatives.²³ Similarly, the Army assumes \$2.6 billion in savings from its A-76 studies over the same time period.

²¹Under A-76, agencies conduct public/private competitions to determine whether the public or private sector will perform selected commercial activities and functions.

²²*Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results* (GAO/NSIAD-00-72, July 25, 2000).

²³Strategic sourcing relies on a broad range of manpower management techniques such as reengineering, reorganization, and prioritization to achieve savings rather than relying solely on A-76 competitions.

Congress Did Not Approve
Additional Base Realignment and
Closure Rounds

DOD continues to emphasize that additional base realignment and closure rounds are necessary to reduce unneeded infrastructure and to free up funds for readiness, weapon modernization, and quality-of-life plans. In both the 2000 and the 2001 FYDPs, DOD assumed congressional approval for two more rounds of base closures and programmed funds to begin implementation of the first round. The 2000 FYDP assumed approval for these rounds in 2001 and 2005 and included approximately \$2.7 billion in fiscal years 2002-04 to begin implementation of a 2001 base closure round. DOD estimated that net savings resulting from the base closure round would begin to occur in fiscal year 2005 and programmed \$167 million in savings for that year. The 2001 FYDP assumes base closure rounds in 2003 and 2005 and includes about \$2 billion in investments to begin implementation of a 2003 round. Table 2 shows the programmed funds for and savings from the first proposed base closure round.

Table 2: Funding Programmed to Begin Implementation of the First Proposed Base Closure Round (in billions of fiscal year 2001 dollars)

	2001	2002	2003	2004	2005	Total
2000 FYDP		\$0.813	\$1.382	\$0.541	\$-0.167 ^a	\$2.569
2001 FYDP				\$0.653	\$1.280	\$1.933

^aNet savings.
Source: Our analysis of FYDP data.

As in the recent past, Congress did not approve additional base closure rounds. In May 1999, the Senate rejected a proposed amendment to its version of the proposed National Defense Authorization for Fiscal Year 2000 bill to establish base closures in 2001 and 2005. In June 2000, the Senate rejected additional rounds in 2003 and 2005. Therefore, until additional rounds are approved, DOD will have the net cost of the rounds to reallocate to other programs. DOD stated that without base closure authority, it will need to continue spending scarce funds on maintaining excess infrastructure and identify other funding sources to meet higher priority needs, such as modernization.

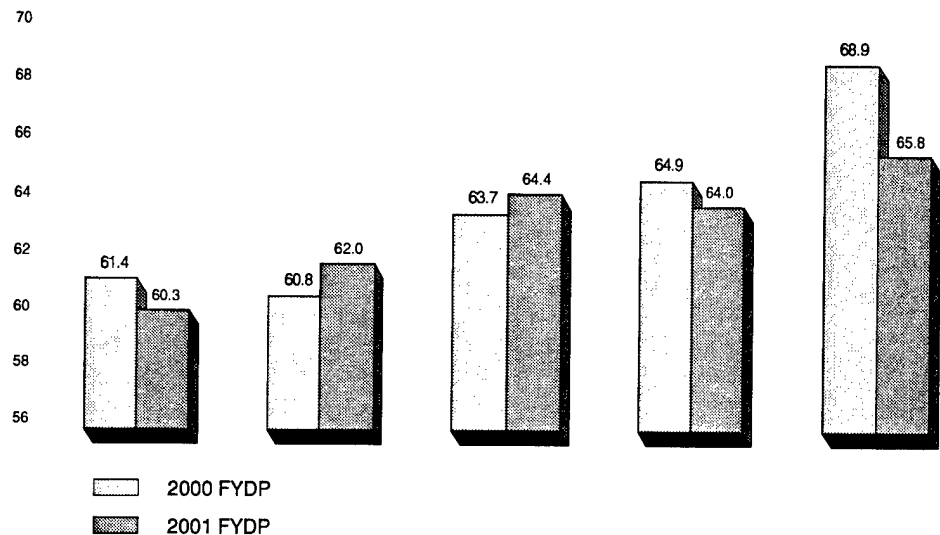
Long-Term Modernization Plans Are at Risk

DOD programmed \$3.2 billion less for procurement in the 2001 FYDP than it had programmed in the 2000 FYDP. This action runs counter to its goal of substantially increasing procurement and adds risk to its long-term modernization program for aircraft, ships, and other weapon systems that will cost billions of dollars. The 2001 FYDP continues the shift of funds from planned procurement to operations and support activities. Given the volume of acquisition and development projects underway, this shifting of procurement funds to other activities creates a large demand for procurement beyond the FYDP. Moreover, it impacts DOD's ability to address problems related to deteriorating and obsolete equipment, which compromises the technological superiority of future forces. Another factor that adds risk to DOD's modernization plans is cost growth in weapon systems.

Decrease in Projected Procurement Funding Runs Counter to Modernization Goals

As figure 3 shows, the 2000 FYDP projected that procurement would increase from \$61.4 billion in 2001 to \$68.9 billion in 2005. The 2001 FYDP also shows an increase between those years, but a more modest increase. However, there is \$3.2 billion less in overall procurement funding programmed in the 2001 FYDP than in the 2000 FYDP. The most significant difference is projected for 2005—DOD programmed \$3.1 billion less in the 2001 FYDP than the 2000 FYDP. Both the Army and the Navy/Marine Corps decreased programmed procurement funding by over \$1 billion each for 2005.

**Figure 3: Annual Procurement Funding Levels in the 2000 and 2001 FYDPs
(in billions of fiscal year 2001 dollars)**



Source: Our analysis of FYDP data.

This projected reduction in 2005 runs counter to DOD's goal of substantially increasing procurement and adds risk to DOD's long-term modernization program. Specifically, the military services plan to procure aircraft, ships, and other weapon systems that will cost billions of dollars. For example,

- the Army plans to procure 480 crusader self-propelled howitzers through 2011 at an estimated cost of over \$11 billion;
- the Army plans to spend billions of dollars to procure new and refurbish existing vehicles and other equipment as part of its program to transform its forces to be more responsive, deployable, survivable, and sustainable;
- the Navy plans to procure 30 new attack submarines by 2021 at an estimated cost of over \$61 billion; and
- the Air Force plans to procure 333 F-22 aircraft through 2011 at an estimated cost of over \$36 billion.

Although DOD's planned procurement spending reached the Quadrennial Defense Review's goal of \$60 billion in 2001 of the current FYDP, and is projected to average over \$63 billion over the 2001-05 period, the Secretary

of Defense said, and others agree, that projected procurement funding levels are insufficient to implement planned modernization programs. The Congressional Budget Office estimated that procurement budgets must average about \$90 billion annually—about \$27 billion above projected levels—to replace current equipment as it wears out or becomes obsolete.²⁴

Procurement Funding Migrates to Other Activities

In 1997, the Quadrennial Defense Review expressed concerns about the chronic migration of funds for planned procurement to operations and support activities. The 2001 FYDP continues this funding migration pattern. For example, the Navy has announced that it will procure five fewer ships from 2002 to 2005 than stated in the 2001 budget proposal. The Navy still plans to purchase at least some of the five ships, but beyond the 2001 FYDP. Table 3 further illustrates the extent that DOD has lowered procurement funding estimates over time. It indicates that as DOD got closer to the budget year, it has lowered procurement funding from prior year estimates. For example, since the 1996 FYDP, DOD has lowered the estimated funding for 2001 procurement from over \$67 billion to about \$60 billion.

²⁴An Analysis of the President's Budgetary Proposals for Fiscal Year 2000, Apr. 1999.

Table 3: Reductions in Planned Procurement Funding (in billions of dollars)

FYDP	Planned procurement funding						
	1995	1996	1997	1998	1999	2000	2001
1995	\$43.3	\$48.4	\$49.8	\$57.1	\$60.1		
1996		39.4	43.5	51.4	54.2	\$62.3	\$67.3
1997			38.9	45.5	50.5	57.7	60.1
1998				42.6	50.7	57.0	60.7
1999					48.7	54.1	61.3
2000						53.0	61.8
2001							60.3
Unrealized procurement		-\$9.0	-\$10.9	-\$14.5	-\$11.4	-\$9.3	-\$7.0

Source: 1995, 1996, 1997, 1998, 1999, 2000, and 2001 FYDPs.

DOD Places Higher Priority on Current Obligations

In its Annual Report to the President and Congress for 2000, DOD states that its priorities are its personnel, readiness, and modernization. However, it acknowledges the migration of procurement funds to pay for operation and support activities. As noted in the report on the Quadrennial Defense Review, this shifting of procurement funds to other activities creates a large, bow wave, demand for procurement beyond the FYDP. Moreover, the report noted that the migration of procurement funds causes deterioration and obsolescence in equipment and compromises the technological superiority of future forces. All of the services have expressed concerns about their aging equipment along with the associated increased maintenance costs. For example, the Air Force has stated that the average age of its fighter aircraft is currently 20 years and it will increase to 30 years by 2015. The Chief of Naval Operations has stated that aging systems is one of the challenges the Navy faces in keeping its equipment mission ready. The Secretary of the Army has stated that the Army must continue to replace its aging equipment to be prepared for future wars. The Chairman of the Joint Chiefs of Staff testified before Congress that a challenge before DOD is to cope with the higher than expected maintenance costs for aging equipment. Using procurement funding to fund other activities will exacerbate the equipment aging problem and add to the bow wave for procurement funding in years beyond the FYDP.

Procurement Programs May Need Additional Funds Due to Cost Growth

The historical cost growth associated with major acquisition programs also adds risk to DOD's procurement programs in the 2001 FYDP. In 1998, we testified that cost increases of 20 to 40 percent had become common for major weapons programs and that numerous programs experienced even greater increases.²⁵ Recently, we and others have reported that the costs for four of DOD's major procurement programs could exceed current projected costs.

- In May 2000, we reported that engine problems with the Navy's F/A-18E/F aircraft could require the development of a new engine, resulting in additional procurement costs for aircraft to be purchased as well as additional costs to retrofit aircraft already purchased.²⁶
- In March 2000, we reported that the Air Force's F-22 aircraft program faces risks that contractor costs will continue to exceed budgets and that overhead costs will increase.²⁷
- In August 1999, we reported that cost overruns would not allow the Army to achieve its goals of executing the Comanche helicopter procurement program within planned funding levels.²⁸
- In March 1999, the Congressional Budget Office estimated that the unit cost of the multi-service Joint Strike Fighter aircraft could be as much as \$25 billion, or 51 percent, higher than expected, depending on which variant was procured.²⁹

Observations

Although total funding in the 2001 FYDP is almost \$16 billion more than in the 2000 FYDP, the 2001 program, like previous Defense programs, is based on optimistic assumptions about savings and funding plans for operation

²⁵*DOD Budget: Substantial Risks in Weapons Modernization Plans* (GAO/T-NSIAD-99-20, Oct. 8, 1998).

²⁶*Defense Acquisitions: F/A-18E/F Aircraft Does Not Meet All Criteria for Multiyear Procurement* (GAO/NSIAD-00-158, May 26, 2000).

²⁷*F-22 Aircraft: Development Cost Goal Achievable if Major Problems Are Avoided* (GAO/NSIAD-00-68, Mar. 14, 2000).

²⁸*Defense Acquisitions: Comanche Program Cost, Schedule, and Performance Status* (GAO/NSIAD-99-146, Aug. 24, 1999).

²⁹Statement by Christopher Jehn, Assistant Director, National Security Division, Congressional Budget Office, on Modernizing Tactical Aircraft, before the Subcommittee on Airland, Senate Armed Services Committee, on Mar. 10, 1999.

and maintenance and procurement. This results in too many programs for the available dollars. In other words, a mismatch exists between Defense's plans and the projected available funding. Optimistic planning provides an unclear picture of defense priorities because tough decisions and trade-offs between needs and wants are avoided. Until DOD presents realistic assumptions and plans in its future budgets, Congress will lack the accurate and realistic information it needs to properly exercise its oversight.

Agency Comments

We provided a draft of this report to DOD for its review and comment. DOD chose not to comment.

Scope and Methodology

To determine the major program adjustments in DOD's defense plan, we analyzed funding data from the 2000 and 2001 FYDPs for fiscal years 2001-05. We adjusted the current dollars to constant 2001 dollars using appropriate DOD Comptroller inflation indexes. We did not test DOD's management controls of the FYDP data or verify the data contained in either the 2000 or the 2001 FYDP. However, we did compare DOD's automated FYDP data with published documents DOD provided. Specifically, we compared total budget estimates, appropriation totals, military and civilian personnel levels, force structure levels, and some specific program information. Based on our comparison, we were satisfied that the automated FYDP data and published data were in agreement.

To identify risks in the 2001 FYDP, we examined various DOD planning and budget documents, including the 2000 Report of the Secretary of Defense to the President and Congress, programming and budget decisions for the 2001 budget, the President's fiscal years 2000 and 2001 budget submissions, the Mid-Session Review of Fiscal Year 2001 Budget, Selected Acquisition Reports, and the Report of the Quadrennial Defense Review. We did not evaluate the reliability of the service's reported backlog of critical maintenance and repairs.

We also reviewed congressional testimonies of various DOD officials to support the 2000 and 2001 budget submissions; our prior reports; and pertinent reports by the Congressional Budget Office, the Congressional Research Service, and others. In addition, we provided each of the services and the Office of the Secretary of Defense (Program Analysis and

Evaluation) with questions about the changes between the two FYDPs. We included their responses throughout the report as appropriate.

Our review was conducted from April through August 2000 in accordance with generally accepted government auditing standards.

We are sending copies of this report to other appropriate congressional committees; the Honorable William Cohen, Secretary of Defense; the Honorable F. Whitten Peters, Secretary of the Air Force; the Honorable Louis Caldera, Secretary of the Army; and the Honorable Richard Danzig, Secretary of the Navy. We will also provide copies to others upon request.

If you have any questions concerning this report, please call Robert Pelletier on (202) 512-4032. Key contributors to this report were George O. Morse, Suzanne Wren, Mary Jo LaCasse, and Patricia Lentini.

Sincerely yours,



Norman J. Rabkin
Director, National Security
Preparedness

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